

SUPERRATINGS' MEDIA RELEASE

Friday, 23rd August 2013

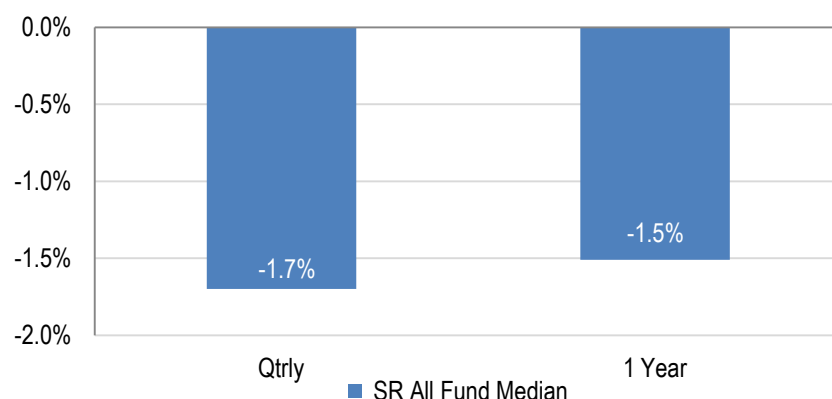
FUM growth strong but membership declines

Based upon research conducted by SuperRatings, 2013 represents the first year in Australia's superannuation history that overall membership numbers across superannuation funds have declined. The average reduction experienced by the superannuation funds analysed by SuperRatings was 1.5%.

Given that the June 2013 quarter represented the first broader tranche of lost member transfer to the Australian Taxation Office, it was of little surprise that the reduction in membership during this quarter effectively wiped-out any membership growth in the preceding three quarters of the financial year.

MEMBER GROWTH

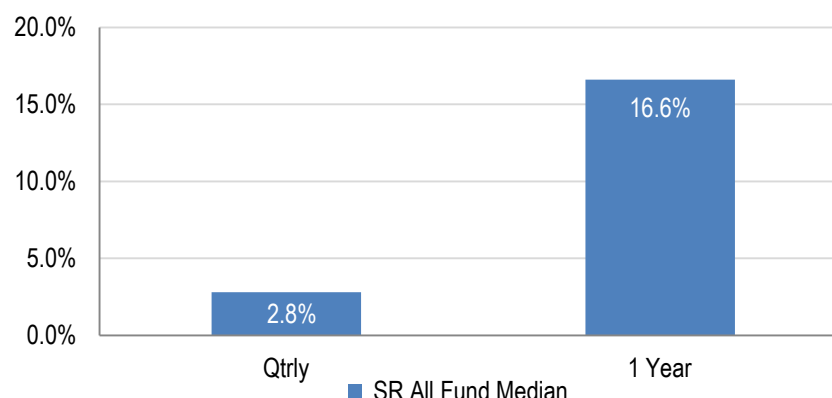
As at 30 June 2013



The reduction in membership was in stark contrast to the growth in funds under management, which rose on average by 16.6% over the 12-month period due to strong investment performance and continued contribution growth.

FUM GROWTH

As at 30 June 2013



Contributions also grew, increasing by a more subdued 1.9% over the 2013 financial year in comparison to the prior year.

SuperRatings welcome media enquiries regarding any of our research or information held in our database.

We are also able to provide commentary and customised tables/graphs for your use.

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Analysis of the data

It is apparent that many funds have undertaken targeted member engagement campaigns to reduce the potential impact of the membership reduction to the ATO, with some funds continuing to experience an increase in membership over the 2012/13 financial year.

Conversely, some funds appeared to be not as well prepared in terms of their membership engagement or took the opportunity to clear out a number of their low balance members, experiencing substantial membership declines over the financial year. Interestingly, 15% of the funds captured within SuperRatings data lost over 5% of members in the June quarter, whilst one fund lost in excess of 175,000 or 14.6% of its membership during the year.

Implications for the industry

Given the existing cost and fee structures utilised by the majority of superannuation funds and their service providers, whereby revenues and expenses are driven by dollar per week member fees, the first year of declining membership is likely to represent a significant shift in thinking for the industry and may force some to re-consider their fee structures.

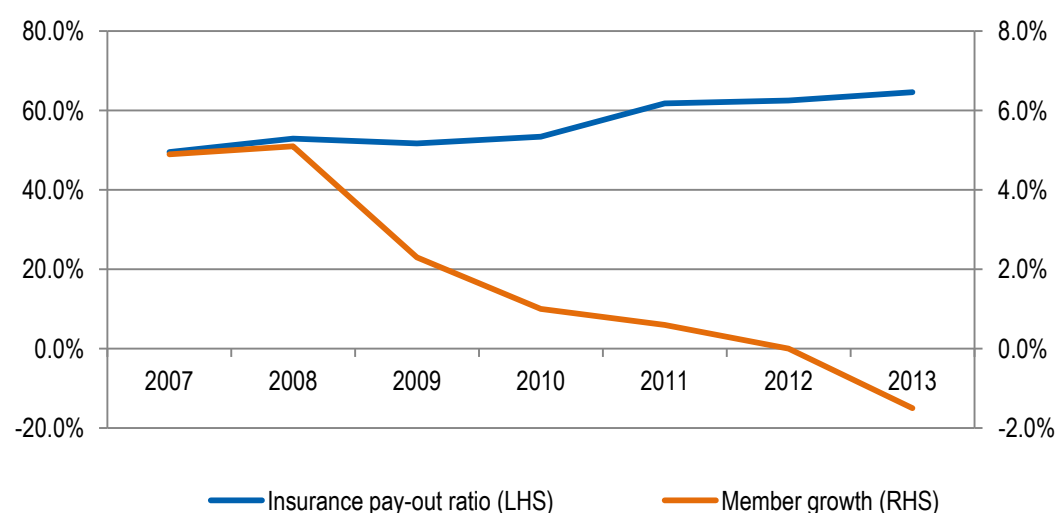
SuperRatings' Head of Consulting, Adam Gee, suggests that "the first year of declining membership numbers may be the impetus for a range of providers, particularly third-party superannuation fund administrators, to consider the manner in which they charge for their services, given that increasing revenue forecasts are likely to have been driven by assumptions surrounding continued membership growth within the industry."

Third party administrators are not the only ones likely to be affected by this year's decline in overall membership numbers. Life insurers may have also priced-in expectations of continued membership growth in determining their overall premium rates for many of the larger superannuation funds. Gee also commented that, "combined with recent poor claims experience, the overall reduction in the number of lives insured (and resulting total sums insured) are likely to suggest that insurance margins and overall insurer profitability will continue to be squeezed."

The table below provides details of SuperRatings analysis comparing the insurance pay-out ratio (being the percentage of claims paid compared to the premiums collected) against membership growth/decline over the seven-year period to 30 June 2013:

INSURANCE PAYOUT RATIO VS MEMBERSHIP GROWTH

As at 30 June 2013





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In addition, with the median cost per member across the industry, as surveyed by SuperRatings, increasing by 7.6% from 2011 to 2012, the overall reduction in membership in 2013 (without any noticeable decrease in costs) is likely to result in a further increase in the median cost per member for the 2013 year.

With the Government indicating its intention to continue to increase membership transfers to the ATO from the current \$2,000 balance level to \$6,000 by 31 December 2016, this will only serve to place additional pressure on superannuation funds to maintain membership numbers, whilst also mitigating any possible increases in the fees charged by their service providers.

Additional database information

We believe our database to be the largest in Australia dealing with multi-employer superannuation funds, where the great majority of Australians have their retirement benefits invested. SuperRatings' captures data from key industry players on a monthly basis, enabling us to maintain the most up-to-date data across the superannuation industry. For any further information, please contact one of the SuperRatings team.

Release Ends

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